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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - SEPTEMBER 2009

¶1. (U) This cable is sensitive but unclassified and not/not intended for Internet distribution.

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Domestic Economy

¶2. (SBU) New Finance Minister Named: North Korea's Central News Agency (KCNA) reported September 18 that the DPRK has promoted Kim Su-gil, who was Vice Finance Minister, to Finance Minister and upgraded the position to Vice-Premier. The upgrading of the Finance Ministry may reflect the DPRK's economic development campaign to revive its economy by 2012. There are five Vice-Premiers in the DPRK cabinet, including the newly appointed Finance Minister.

¶3. (SBU) Labor Drive Campaign Extended: The DPRK on September 21 extended its economic development campaign for another 100 days, according to the KCNA. The DPRK Workers' Party claimed that it has made great achievements through the 150-day campaign aimed at boosting the country's economic growth. During the campaign, which began on April 20 and was slated to end on September 16, 2009, DPRK's industrial sectors reportedly overshot their targets by 12 percent and production in the DPRK reached the whole year's production quota. It said the DPRK government called for launching another 100-day campaign, to achieve even greater economic success in 2010. Many ROK experts contend the 150-day campaign and previous campaigns have hurt the economy by distorting the distribution of resources.

¶4. (SBU) DPRK Shuts Down Wholesale Market: The DPRK reportedly closed Pyongsong Market, the largest unofficial wholesale market in the outskirts of Pyongyang. According to NGOs, the DPRK closed the market in June, in part because a large number of merchants were reportedly selling their goods secretly at home. Prior to the closing, there were reports of police surveillance and inspections, during which police confiscated items without providing compensation.

¶5. (SBU) DPRK Expands Telecommunications Network: North Korea's Central Broadcasting Station reported August 26 that North Korea is expanding its telecommunications network nationwide and renovating its broadcasting sector. According to the report, fiber-optic cables have been laid from Pyongyang to all provinces in the DPRK to upgrade communication quality and enhance the flow of information throughout the country. It said automation and digital capacity has increased seven fold from 16 years ago, citing the realization of fiber-optic technology in provinces and small towns in the DPRK.

¶6. (SBU) Pyongyang Will Build 100,000 New Houses by 2012: Japan-based pro-North Korea Chosun Sinbo reported August 7 that Kim Jong-il has instructed DPRK officials to build 100,000 homes in Pyongyang by 2012. The construction is aimed to create a strong and prosperous nation by 2012.

Foreign Trade and Investment

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¶7. (SBU) DPRK Bans Anthracite Exports: On August 24, Yonhap News Agency quoted Chinese sources as saying that North Korean authorities have recently banned exports of anthracite. The recent ban was reportedly to secure sufficient quantities for domestic demand. The DPRK has been exporting USD 100-200 million (2.5 - 3 million mt) of anthracite per year and accounting for 60 percent of total DPRK exports. Experts assess that DPRK's anthracite export ban is an attempt to normalize its infrastructure by supplying anthracite to DPRK thermal power plants to produce more electricity.

¶8. (SBU) DPRK-China Trade Fell in the First Half of 2009: According to the Korea Trade and Investment Promotion Agency (KOTRA) on August 7, bilateral trade between the DPRK and China in the first half of 2009 declined 3.7 percent to USD 1.12 billion. China exports to the DPRK in the first half of 2009 fell 8.4 percent to USD 750 million, while Chinese imports from the DPRK from January to June 2009 rose 8.2 percent from the previous year to USD 352 million.

¶9. (SBU) DPRK imports of mineral fuel from China fell nearly 50 percent in the first half of 2009 (year-on-year) to USD 153 million. Mineral fuels topped the list of DPRK imports in 2007 and 2008. However, DPRK imports of crude oil from China in the first half of 2009 fell 54 percent over the same period in 2008 to USD 111 million. DPRK imports of cereals in the first half of 2009 also dropped 23 percent to USD 23 million from the same period in 2008.

DPRK-China Trade in First Half of 2009

(UNIT: USD MILLION, PERCENT)

YEAR	China Exports To DPRK	China Imports from DPRK	TOTAL	BALANCE
-----	-----	-----	-----	-----
2004	795(26.5)	582(47.2)	1,377(-1)	212
2005	1,085(36.5)	497(-14.7)	1,581(15)	588
2006	1,232(13.6)	468(-5.8)	1,700(7)	764
2007	1,392(13.0)	582(24.3)	1,974(16)	811
2008	2,033(46.0)	754(29.7)	2,787(41)	1,279
2009	750(-8.4)	352(8.2)	1,102(-3.7)	398

(1-6)

(1)Source: The Chinese Customs Office

(2)Note: Figures in the parenthesis are comparisons of the same period in the previous year.

The growth in 2009 (January through June) is a comparison of the same period in 2008.

DPRK Top 20 Imports Items from China

(Unit: USD 1,000, Percent in Growth)

Rank	Item	2008	Growth Percent	2009	Growth Percent
1	Mineral Fuel	585,954	45.8	152,937	-49.4
2	Machinery & Boilers	145,486	40.1	62,256	-8.5
3	Vehicles & Parts	67,258	25.4	52,409	75.0
4	Electrical Machinery	100,646	45.3	44,561	19.2
5	Iron & Steel	48,264	31.7	30,240	44.6
6	Plastics & Parts	80,045	46.6	29,577	24.3
7	Man-made Filaments	55,016	5.2	26,708	8.0
8	Cereals	34,875	-4.5	23,186	-23.0
9	Apparel & Accessories	86,911	265.3	23,110	128.4
10	Articles of Steel	39,731	31.5	22,481	39.8
11	Meat & Fish Preparation	43,753	20.4	17,640	-10.7
12	Fish & Shellfish	25,202	80.6	16,332	20.8
13	Man-made Staple Fibers	40,508	80.5	12,224	-6.8
14	Fertilizer	12,730	37.5	11,910	57.4
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15	Oil Seeds & Oleaginous Fruit	21,130	7.3	11,464	3.7
16	Rubber	36,548	20.3	11,411	29.2
17	Animal & Vegetable Fats	45,450	53.9	10,565	-3.3
18	Edible Vegetables	17,964	52.4	10,527	26.3
19	Cotton	7,997	9.6	9,914	229.1
20	Inorganic	34,686	53.5	9,813	-51.5
	TOTAL	2,033,233	46.0	750,124	-8.4

Source: PRC Customs Office

Note: The growth in 2000(Jan-Jun) is a comparison of the same period in 2008.

¶10. (SBU) DPRK-Germany Trade in the First Half of 2009 Rose 30 Percent: KOTRA cited the Federal Statistical Office of Germany on August 24 that bilateral trade between the DPRK and Germany from January through June amounted to USD 68 million, 30 percent higher than all of 2008. Trade between the DPRK and Germany had continuously contracted since 2005. German exports to the DPRK in the first half of 2009 totaled USD 36 million with major shipments of machinery, electronics, medical devices and pharmaceuticals. German imports from the DPRK in the first half of 2009 amounted to USD 32 million, consisting mostly of vehicle components.

¶11. (SBU) Swiss Watch Exports to the DPRK Doubled in 2008: Radio Free Asia (RFA) in August cited the Federation of the Swiss Watch Industry (FSWI) and reported that the DPRK imported USD 55,260 worth of 449 wrist watches from Switzerland in 2008, nearly double from 2008 (284 watches). A FSWI official said, We have actually checked the value of those watches that were exported to North Korea and they are not considered as luxury watches. He also stressed that the Swiss government has been faithfully implementing the United Nations Security Council Resolution (UNSCR) 1718 stating the ban of exporting luxury items to the DPRK. However, Dick Nanto, a specialist on the Korean Peninsula at the CRS, was quoted as saying that the FSWI may have underreported its actual exports of watches to the DPRK, because most of the Swiss watches exporting to the DPRK

are regarded as luxury items which have been banned since 2006.

¶12. (SBU) DPRK Continues to Import Luxury Cars: The ROK-based Chosun Ilbo cited on August 27 a Japanese source familiar with the DPRK and reported that the DPRK has been continuously importing luxury cars despite UNSCR 1718. The source said that Kim Jong-il is reportedly planning to acquire new models this year, adding to the 500 vehicles he currently owns. The source claimed that Kim Jong-il purchased at least 10 Range Rovers and 20 Mercedes 600s after UNSCR 1718 banned the shipment of luxury goods to the DPRK in 2006.

Inter-Korean Economic Cooperation

¶13. (SBU) ROK Think Tank: Unification Requires Higher ROK Taxes: According to a recent report released by the Korea Institute for Public Finance (KIPF), the Koreans will have to collect about 10 percent more tax for 60 years after unification, if the two Koreas were to be unified in 2011. The figures are some of the most detailed by the ROK on the potentially huge cost of reuniting with the DPRK. Additional fiscal spending will initially reach 12 percent of ROK annual GDP, declining to around seven percent about 10 years later but increasing again afterwards, the KIPF report said. The research was conducted assuming that it would take 50-60 years after unification to increase productivity in the DPRK to about 80-90 percent of the ROK's. The income of South Koreans was 7.4 times higher than that of North Koreans in 1992, but the income gap widened to 17 times in 2007. If South Korea's birthrate remains low and the two Koreas were to be unified quickly, South Korea's ratio of population compared to North Korea will shrink and South Korea would bear a heavier financial burden for unification, the report concluded.

¶14. (SBU) Inter-Korean Trade Fell 22 Percent in July 2009: MOU figures show that inter-Korean trade in July fell 22 percent from July 2008 to USD 140 million in July 2009, for the eleventh consecutive month of contraction since September 2008. Despite that

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inter-Korean trade reached its highest level for 2009 in July, ROK exports to the DPRK declined 34 percent from July of 2008 to USD 64.7 million while imports dropped eight percent to USD 75.5 million. Inter-Korean commercial transactions such as the Kaesong Industrial Complex project, general trade and processing-on-commission fell 21 percent to USD 138.5 million. Non-commercial transactions between the two Koreas in July this year significantly fell 73 percent compared to July 2008, mainly because of the continued chill in inter-Korean ties.

INTER-KOREAN TRADE IN JULY 2009

(UNIT: USD THOUSAND, PERCENT)

Commercial Transactions

	South Exports To North	South Imports from North	Total
	-----	-----	-----
General Trading	653(-89)	22,351(-34)	23,004(-42)
Processing-on Commission(POC)	24,960(17)	16,193(-13)	41,153(3)
Kaesong Industrial Complex	36,579(-39)	35,163(26)	71,142(-19)
Mt. Kumgang Tourism Project	163(-95)	5(-100)	168(-96)
Other Economic Projects	653(-63)	1,805(171)	2,458(1)
Light Industry Cooperation	0	0	0

Subtotal	63,008(-32)	75,517(-8)	138,525(-21)
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Non-Commercial Transactions

	South Exports To North	South Imports from North	Total
NGO Aid	1,725(-64)	0	1,725(-64)
Government Aid	0	0	0
Social,Cultural Projects	0(-100)	8(33)	8(-33)
Energy Aid (HFO)	0	0	0
Subtotal	1,725(-73)	8(33)	1,733(-73)
TOTAL	64,773(-73)	75,525(-8)	140,258(-22)

(1)Source: Ministry of Unification

(2)Note: Figures in parenthesis are comparisons of the same month in 2008.

¶15. (SBU) DPRK Profits from Monopoly on Inter-Korean Shipping Route:

Chosun Ilbo reported August 10 that the DPRK makes USD 1,800 for every 40-foot container shipped on the Busan-Rajin route, which is about 4.4 to 12 times more expensive than the shipping charges on the Busan-Shanghai route, a similar distance. The MOU and other sources said that the DPRK unilaterally raised the container shipping price from USD 1,500 to USD 1,800 per 40-foot container in August 2008. An MOU official was quoted as saying, North Korea notified us of the raise of the inter-Korean shipping charge without prior negotiation, just as the DPRK did with the request to raise wages for North Korean workers at the Kaesong Industrial Complex. A DPRK ship which operates between Busan and Rajin three to four times a month made USD 3 million in 2008, and USD 1.55 million in the first half of 2009.

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Foreign Aid

¶16. (SBU) Switzerland to Withdraw DPRK Assistance Projects by 2011:

RFA reported August 7 that the Swiss Agency for Development and Cooperation (SDC) has decided to gradually withdraw its humanitarian assistance projects in the DPRK by 2011. Katherine Zellweger, SDC's DPRK Office Director said, "The Paris Declaration on Aid Efficiency recommended Switzerland work in fewer countries and be more focused.

The Swiss parliament decided that the SDC had to cut the DPRK program. So far there are no implications. But financial transactions with the DPRK might become more difficult in the future." The Swiss Government has been maintaining humanitarian assistance projects in the DPRK but financial support has been continuously decreasing since October 2006. The Swiss Government spending for DPRK projects was: USD 7 million (2006), USD 6.5 million (2007), USD 6 million (2008) and USD 5.4 million (2009), respectively.

¶17. (SBU) French NGO Donates 400 Rabbits to DPRK: RFA reported

August 31 that the France-based NGO Premiere Urgence plans to ship 400 rabbits to seven farms in North Pyongyang and North Hwanghae Provinces. Premier Urgence plans to provide feeding techniques to the DPRK to improve rabbit fertility rates. RFA said the NGO spends USD 208 million a year to assist the DPRK's agricultural sector and to help with hospital refurbishment.

TOKOLA